



Aleutians East Borough, Alaska

Basic Financial Statements, Required
Supplementary Information, Supplementary
Information and Single Audit Reports
Year Ended June 30, 2019

Aleutians East Borough, Alaska

Basic Financial Statements, Required Supplementary Information,
Supplementary Information and Single Audit Reports
Year Ended June 30, 2019

Aleutians East Borough, Alaska

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Aleutians East Borough, Alaska

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Independent Auditor's Report

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Aleutians East Borough, Alaska (the Borough), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Aleutians East Borough, Alaska, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 50 and the Schedules of Net Pension Liability, Net OPEB Liability and Pension and OPEB Contributions on pages 51-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The individual fund financial statements and schedules listed in the table of contents, the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the Schedule of State Financial Assistance, as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and the individual fund financial statements and schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and the individual fund financial statements and schedules listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020 on our consideration of the Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Borough's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
April 30, 2020

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Basic Financial Statements

Aleutians East Borough, Alaska

Statement of Net Position

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	School District
<i>June 30, 2019</i>				
Assets and Deferred Outflows of Resources				
Assets				
Cash and investments	\$ 64,109,422	\$ -	\$ 64,109,422	\$ 4,879,648
Investment in Southwest Governments, LLC	436,522	-	436,522	-
Receivables, net of allowance for uncollectible accounts:				
State of Alaska	88,314	-	88,314	-
Accrued interest	72,402	-	72,402	-
Other	657,095	34,723	691,818	227,614
Internal balances	(95,699)	95,699	-	-
Prepaid items	-	8,310	8,310	220,207
Inventory	-	-	-	28,909
Restricted cash and investments:				
Unspent bond proceeds	6,229,151	-	6,229,151	-
Accrued interest	11,435	-	11,435	-
Capital assets not being depreciated	5,323,074	-	5,323,074	-
Other capital assets, net of accumulated depreciation	74,019,091	4,755,785	78,774,876	276,574
Total Assets	150,850,807	4,894,517	155,745,324	5,632,952
Deferred Outflows of Resources				
Related to pensions	188,549	-	188,549	376,826
Related to other postemployment benefits	110,031	-	110,031	312,160
Deferred charge on refunding	347,064	-	347,064	-
Total Deferred Outflows of Resources	645,644	-	645,644	688,986
Total Assets and Deferred Outflows of Resources	\$ 151,496,451	\$ 4,894,517	\$ 156,390,968	\$ 6,321,938
Liabilities, Deferred Inflows of Resources and Net Position				
Liabilities				
Accounts payable	\$ 3,824,618	\$ 8,980	\$ 3,833,598	\$ 67,989
Accrued payroll and taxes	-	-	-	58,182
Accrued leave	80,343	-	80,343	37,329
Accrued interest	127,915	-	127,915	-
Unearned revenue	-	-	-	12,164
Bonds payable, current	1,520,000	-	1,520,000	-
Bonds payable, noncurrent	21,107,025	-	21,107,025	-
Net pension liability	1,453,693	-	1,453,693	3,758,568
Net other postemployment benefits liability	297,527	-	297,527	645,380
Total Liabilities	28,411,121	8,980	28,420,101	4,579,612
Deferred Inflows of Resources				
Related to pensions	46,825	-	46,825	101,382
Related to other postemployment benefits	109,798	-	109,798	260,813
Total Deferred Inflows of Resources	156,623	-	156,623	362,195
Net Position				
Net investment in capital assets	63,291,355	4,755,785	68,047,140	276,574
Restricted:				
Construction	280,770	-	280,770	-
Trust Fund	47,035,499	-	47,035,499	-
Unrestricted	12,321,083	129,752	12,450,835	1,103,557
Total Net Position	122,928,707	4,885,537	127,814,244	1,380,131
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 151,496,451	\$ 4,894,517	\$ 156,390,968	\$ 6,321,938

See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Statement of Activities

Statement of Activities									
Year Ended June 30, 2019	Program Revenues				Net Revenue (Expense) and Changes in Net Position			Component Unit	
	Expenses	Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Primary Government		School District		
					Govern- mental Activities	Business- type Activities		Total	
Primary Government									
Governmental Activities									
General government	\$ 4,408,636	\$ -	\$ 952,096	\$ -	\$ (3,456,540)	\$ -	\$ (3,456,540)		
Infrastructure	4,167,105	-	-	214,156	(3,952,949)	-	(3,952,949)		
Interest on long-term debt	643,850	-	-	-	(643,850)	-	(643,850)		
Total Governmental Activities	9,219,591	-	952,096	214,156	(8,053,339)	-	(8,053,339)		
Business-type Activities -									
Terminal	340,717	141,511	-	-	-	(199,206)	(199,206)		
Helicopter	1,398,803	1,248,770	-	-	-	(150,033)	(150,033)		
Total Business-type Activities	1,739,520	1,390,281	-	-	-	(349,239)	(349,239)		
Total Primary Government	\$ 10,959,111	\$ 1,390,281	\$ 952,096	\$ 214,156	\$ (8,053,339)	\$ (349,239)	\$ (8,402,578)		
Component Unit - School District	\$ 8,707,613	\$ 133,523	\$ 481,654					\$ (8,092,436)	
General Revenues									
Borough fish tax					4,619,039	-	4,619,039	-	
Unrestricted investment earnings					195,201	-	195,201	-	
Restricted investment earnings					2,776,373	-	2,776,373	-	
Local contributions					-	-	-	1,113,141	
State grants and entitlements not restricted to specific program					2,380,247	-	2,380,247	4,787,446	
Payment in lieu of taxes					628,227	-	628,227	-	
Federal sources					-	-	-	2,706,581	
PERS - on behalf					19,629	-	19,629	-	
E-rate					-	-	-	719,280	
Miscellaneous					196,589	-	196,589	38,523	
Transfers					(125,743)	125,743	-		
Total General Revenues and Transfers					10,689,562	125,743	10,815,305	9,364,971	
Change in Net Position					2,636,223	(223,496)	2,412,727	1,272,535	
Net Position, beginning					120,292,484	5,109,033	125,401,517	107,596	
Net Position, ending					\$ 122,928,707	\$ 4,885,537	\$ 127,814,244	\$ 1,380,131	

See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Exhibit B-1

Balance Sheet - Governmental Funds

	Major Funds					Nonmajor Fund	Total Governmental Funds
	General Fund	Capital Improvements Capital Project	Trust Permanent Fund	Bond Construction Capital Project	Maintenance Reserve Capital Project	King Cove Access Project	
<i>June 30, 2019</i>							
Assets							
Cash and investments	\$ 18,189,727	\$ 21	\$ 45,638,904	\$ -	\$ -	\$ 280,770	\$ 64,109,422
Investment in Southwest Governments, LLC	-	-	436,522	-	-	-	436,522
Receivables, net:							
State of Alaska	-	88,314	-	-	-	-	88,314
School	-	-	-	-	-	-	-
Accrued interest	5,304	-	67,098	-	-	-	72,402
Other	657,095	-	-	-	-	-	657,095
Due from other funds	865,519	392,773	892,975	-	843	-	2,152,110
Restricted cash and investments:							
Unspent bond proceeds	-	-	-	6,229,151	-	-	6,229,151
Accrued interest	-	-	-	11,435	-	-	11,435
Total Assets	\$ 19,717,645	\$ 481,108	\$ 47,035,499	\$ 6,240,586	\$ 843	\$ 280,770	\$ 73,756,451
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 3,509	\$ 24,703	\$ -	\$ 3,795,563	\$ 843	\$ -	\$ 3,824,618
Due to other funds	-	-	-	2,247,809	-	-	2,247,809
Total Liabilities	3,509	24,703	-	6,043,372	843	-	6,072,427
Fund Balances							
Restricted:							
Trust fund	-	-	47,035,499	-	-	-	47,035,499
King Cove access project funding	-	-	-	-	-	280,770	280,770
Assigned:							
Capital improvements	-	456,405	-	197,214	-	-	653,619
Unassigned	19,714,136	-	-	-	-	-	19,714,136
Total Fund Balances	19,714,136	456,405	47,035,499	197,214	-	280,770	67,684,024
Total Liabilities and Fund Balances	\$ 19,717,645	\$ 481,108	\$ 47,035,499	\$ 6,240,586	\$ 843	\$ 280,770	\$ 73,756,451

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2019

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - All governmental funds		\$ 67,684,024
Capital assets (shown here, net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.		79,342,165
Deferred outflows of resources are not financial resources and, therefore, are not reported in the funds:		
Related to pensions	\$ 188,549	
Related to other postemployment benefits	110,031	
Deferred charge on refunding	347,064	
Total deferred outflows of resources	<u>645,644</u>	645,644
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds:		
Accrued leave	(80,343)	
Accrued interest on bonds	(127,915)	
Bonds payable, including unamortized premium	(22,627,025)	
Net pension liability	(1,453,693)	
Net other postemployment liability	(297,527)	
Total long-term liabilities	<u>(24,586,503)</u>	(24,586,503)
Deferred inflows of resources are not financial resources and therefore, are not reported in the funds:		
Related to pensions	(46,825)	
Related to other postemployment benefits	(109,798)	
Total deferred inflows of resources	<u>(156,623)</u>	(156,623)
Total Net Position of Governmental Activities		<u>\$ 122,928,707</u>

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds

	Major Funds						Nonmajor Fund	Total Governmental Funds
	General Fund	Capital Improvements Capital Project	Trust Permanent Fund	Debt Service	Bond Construction Capital Project	Maintenance Reserve Capital Project	King Cove Access Project	
<i>Year Ended June 30, 2019</i>								
Revenues								
Federal government	\$ 628,227	\$ 297,333	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 925,560
State of Alaska	3,090,108	214,156	-	-	-	-	-	3,304,264
Borough raw fish tax	4,619,039	-	-	-	-	-	-	4,619,039
Investment income	41,781	2,018	2,776,373	-	151,402	-	-	2,971,574
Other	122,851	6,829	-	-	66,909	-	-	196,589
Total Revenues	8,502,006	520,336	2,776,373	-	218,311	-	-	12,017,026
Expenditures								
Current:								
General government	4,024,934	-	40,941	-	-	-	-	4,065,875
Infrastructure	-	455,454	-	-	40,941	331,403	-	827,798
Debt service	-	-	-	2,472,203	-	-	-	2,472,203
Capital outlay	-	506,786	-	-	7,363	143,630	-	657,779
Total Expenditures	4,024,934	962,240	40,941	2,472,203	48,304	475,033	-	8,023,655
Excess of Revenues Over (Under) Expenditures	4,477,072	(441,904)	2,735,432	(2,472,203)	170,007	(475,033)	-	3,993,371
Other Financing Sources (Uses)								
Transfers in	-	-	-	2,472,203	-	475,033	-	2,947,236
Transfers out	(3,072,979)	-	-	-	-	-	-	(3,072,979)
Net Other Financing Sources (Uses)	(3,072,979)	-	-	2,472,203	-	475,033	-	(125,743)
Net Change in Fund Balances	1,404,093	(441,904)	2,735,432	-	170,007	-	-	3,867,628
Fund Balances, beginning	18,310,043	898,309	44,300,067	-	27,207	-	280,770	63,816,396
Fund Balances, ending	\$ 19,714,136	\$ 456,405	\$ 47,035,499	\$ -	\$ 197,214	\$ -	\$ 280,770	\$ 67,684,024

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Reconciliation of Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2019

Net change in fund balances - All governmental funds	\$	3,867,628
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, on the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$3,731,989 exceeded capital outlays of \$416,436 in the current period.		(3,315,553)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Principal repayment	\$	1,450,000
Net change in premium and deferred charge on refunding		368,153
		1,818,153

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds:

Decrease in accrued leave		638
Decrease in accrued interest		10,200
Decrease in net pension liability and related deferred outflows and inflows of resources		227,079
Decrease in net other postemployment benefits liability and related deferred outflows and inflows of resources		28,078
		265,995

Total Change in Net Position of Governmental Activities	\$	2,636,223
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See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Statement of Net Position

Enterprise Funds

June 30, 2019	Major Funds		Total
	Terminal	Helicopter	
Assets			
Current Assets			
Prepays	\$ -	\$ 8,310	\$ 8,310
Receivables, net	-	34,723	34,723
Due from other funds	129,752	-	129,752
Total Current Assets	129,752	43,033	172,785
Noncurrent Assets			
Equipment, net of accumulated depreciation	4,755,785	-	4,755,785
Total Assets	\$ 4,885,537	\$ 43,033	\$ 4,928,570
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ -	\$ 8,980	\$ 8,980
Due to other funds	-	34,053	34,053
Total Liabilities	-	43,033	43,033
Net Position			
Net investment in capital assets	4,755,785	-	4,755,785
Unrestricted	129,752	-	129,752
Total Net Position	4,885,537	-	4,885,537
Total Liabilities and Net Position	\$ 4,885,537	\$ 43,033	\$ 4,928,570

See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Statement of Revenues, Expenses and Changes in Net Position Enterprise Funds

<i>Year Ended June 30, 2019</i>	Major Funds		Total
	Terminal	Helicopter	
Operating Revenues	\$ 141,511	\$ 1,248,770	\$ 1,390,281
Operating Expenses			
Salaries and benefits	30,531	100,027	130,558
Professional services	-	1,071,219	1,071,219
Telephone	4,360	2,492	6,852
Supplies	20,151	56,639	76,790
Rent	-	10,500	10,500
Utilities	3,669	4,507	8,176
Insurance	-	14,246	14,246
Fuel	13,689	126,166	139,855
Maintenance	15,419	-	15,419
Depreciation	252,898	13,007	265,905
Total Operating Expenses	340,717	1,398,803	1,739,520
Operating Loss	(199,206)	(150,033)	(349,239)
Transfers In	-	125,743	125,743
Change in net position	(199,206)	(24,290)	(223,496)
Net Position, beginning	5,084,743	24,290	5,109,033
Net Position, ending	\$ 4,885,537	\$ -	\$ 4,885,537

See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Statement of Cash Flows
Enterprise Funds

Year Ended June 30, 2019	Major Funds		Total
	Terminal	Helicopter	
Cash Flows from (for) Operating Activities			
Cash payments from customers	\$ 147,215	\$ 1,222,604	\$ 1,369,819
Cash payments for goods and services	(64,369)	(1,282,373)	(1,346,742)
Cash payments for salaries and benefits	(30,531)	(100,027)	(130,558)
Net cash flows from (for) operating activities	52,315	(159,796)	(107,481)
Cash Flows from (for) Noncapital Financing Activities			
Increase in due to other funds	-	34,053	34,053
Increase in due from other funds	(52,315)	-	(52,315)
Transfer in	-	125,743	125,743
Net cash flows from (for) noncapital financing activities	(52,315)	159,796	107,481
Net Increase in Cash	-	-	-
Cash and Cash Equivalents, beginning	-	-	-
Cash and Cash Equivalents, ending	\$ -	\$ -	\$ -
Reconciliation of Operating Loss to Net Cash Flows from (for) Operating Activities			
Operating loss	\$ (199,206)	\$ (150,033)	\$ (349,239)
Adjustments to reconcile operating loss to net cash flows from (for) operating activities:			
Depreciation	252,898	13,007	265,905
Changes in operating assets and liabilities that provided (used) cash:			
Receivables, net	5,704	(26,166)	(20,462)
Accounts payable	(7,081)	3,396	(3,685)
Net Cash Flows from (for) Operating Activities	\$ 52,315	\$ (159,796)	\$ (107,481)

See accompanying notes to financial statements.

Aleutians East Borough, Alaska
Statement of Fiduciary Assets and Liabilities
Deferred Compensation Agency Fund

Year Ended June 30, 2019

Assets - investments	\$ 649,064
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Liabilities - due to employees	\$ 649,064
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See accompanying notes to financial statements.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies

The financial statements of the Aleutians East Borough (the Borough) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(a) Reporting Entity

The Aleutians East Borough (Borough) was incorporated October 23, 1987, under the laws of the State of Alaska as a second-class Borough. All significant activities with which the Borough exercises oversight responsibilities have been included in the Borough's general purpose financial statements.

The accompanying financial statements include all activities of the Borough (the primary government) and The Aleutians East Borough School District (School District). The Borough Assembly, as the oversight authority, approves the total annual budget of the School District and also makes annual contributions to it. Based on financial interdependence, budget approval, responsibility for debt, and accountability and control of fiscal matters, The School District is a component unit of the Borough. The School District's audited financial statements may be obtained from their office at the address below:

Aleutians East Borough School District
PO Box 429
Sand Point, Alaska 99661-0429

No other entities exist over which the Borough has oversight responsibility.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information in all nonfiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental fund types. Major individual governmental funds are reported in separate columns in the fund financial statements.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(c) Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide statements report using the economic resources measurement focus and accrual basis of accounting includes reclassification or elimination of internal activity (between or within funds). Financial statements of Borough component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements report used the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Borough considers revenues to be available if they are collected within 180 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

(d) Fund Types and Major Funds

The Borough reports the following major governmental funds:

- General Fund - Reports as the primary fund of the Borough. This fund is used to account for all financial resources not reported in other funds.
- Capital Improvements Capital Project Fund - Accounts for all revenue received and expenditures made for the development and administration of capital projects.
- Trust Permanent Fund - Accounts for all investment activity, deposits and disbursements related to the permanent fund established by the assembly. The Borough Assembly may, in any fiscal year, appropriate an amount not to exceed four percent (4%) of the five-year average fund market value, to be computed using the five prior calendar years market value, additional income is added to the fund. The fund corpus is to be held in perpetuity except in circumstances of natural disaster or financial emergency.
- Debt Service Fund - Accounts for all expenditures made for the retirement of and interest on debt.
- Bond Construction Capital Project Fund - Accounts for all expenditures made on projects funded by bond proceeds.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

- Maintenance Reserve Capital Project Fund - Accounts for all expenditures made on maintenance-related projects. The Borough has elected to report this fund as major given significance to the users of the financial statements.

The Borough reports the following major proprietary funds:

- Terminal Enterprise Fund - Accounts for all activity associated with construction, operation, and maintenance of the airport terminal located in Cold Bay.
- Helicopter Enterprise Fund - Accounts for all activity associated with helicopter operations in Akutan.

The Borough reports the following fiduciary fund:

- Deferred Compensation Agency Fund - Accounts for the Borough's employee retirement plan.

(e) Budgetary Information

The Borough Assembly is required to approve an annual budget before the start of the new fiscal year. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through passage of an ordinance. Budgets are prepared and presented on the modified accrual basis of accounting. Any revisions to the budget must be approved by passage of an ordinance by the Assembly. The Borough Assembly authorizes formal budget revisions several times each year to adjust revenues and expenditures to available resources and program needs. The final revised and approved budget is presented in these financial statements.

(f) Assets and Liabilities

Cash and Investments

The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

Investments are stated at fair value. Investments of all funds outside of the Permanent Fund are managed within the Borough's central treasury.

Investments in Southwest Governments, LLC

The Borough's investment in Southwest Governments, LLC is accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Borough's share of undistributed earnings or losses. The Borough would recognize an impairment loss when there is a loss in value in the equity method investment which is other than a temporary decline.

Receivables

All receivables are shown net of an allowance for uncollectible accounts.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Interfund Receivables and Payables

All outstanding balances between funds are reported as “due to/from other funds.” These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. All amounts due to/from other funds are short-term in nature.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

The Borough’s property, plant, equipment, and infrastructure with useful lives of more than 1 year are stated at historical cost and comprehensively reported in government-wide financial statements. The Borough maintains infrastructure asset records consistent with all other capital assets. Component unit capital assets are also reported in their respective fund and combining component unit financial statements. Donated assets are recorded at the acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The Borough generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years for depreciable assets are as follows:

Buildings and improvements	25 years
Infrastructure	30 years
Furniture, vehicles and equipment	3-7 years

Accrued Leave

It is the Borough’s policy to permit employees to accumulate earned but unused annual leave. Compensated absences are reported as accrued in government-wide and component unit financial statements. Governmental funds report only matured accrued leave payable to currently terminated employees and are included in wages and benefits payable.

Unearned Revenue

Amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met are recorded as unearned revenue.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Long-term Debt

In government-wide and component unit financial statements, outstanding debt is reported as liabilities. Governmental fund financial statements recognize proceeds of debt and premiums as other financing sources of the current period.

(g) Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(h) Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Generally, the Borough reports deferred charges on bond refunding and pension and OPEB related items as deferred outflows of resources. These items are amortized to expense over time.

In addition to the liabilities, the financial statements may also present deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until later. The Borough reports certain pension and OPEB related items as deferred inflows of resources. These items are amortized as a reduction of expense over varying periods of time based on their nature.

(i) Equity

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact. The spendable portion of the fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted

Reflects funds with externally imposed constraints placed on them by either creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Committed

These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Assembly. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those requirements. Committed amounts cannot be used for any other purpose unless the Borough Assembly removes the constraint through a subsequent formal modification or rescinding action.

Assigned

This classification reflects the amounts constrained by the Borough's assembly members "intent" to be used for specific purposes, but are neither restricted nor committed. When Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds. When restricted, committed or assigned resources as well as unassigned resources are available for use, it is the Borough's policy to use restricted, committed, or assigned resources first, then unassigned resources as needed.

(j) Net Position

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Net Investment in Capital Assets

This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted

This consists of net position that does not meet the definition of restricted or net investment in capital assets. When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

(k) Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(l) Revenues, Expenditures and Expenses

Grants and Other Intergovernmental Revenues

In applying the measurable and available concept to grants and intergovernmental revenues, legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered "earned"; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

2. Cash and Investments

The Borough utilizes a central treasury that is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet in each fund as "cash and investments."

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the Borough's deposit and investment balances to the financial statements as of June 30, 2019.

	Book Balance	Bank Balance
Bank deposits and petty cash	\$ 10,000,312	\$ 11,135,128
Investments	60,338,261	60,338,261
Total	\$ 70,338,573	\$ 71,473,389
Cash and investments	\$ 64,109,422	
Restricted cash and investments- Unspent bond proceeds	6,229,151	
Total	\$ 70,338,573	

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Cash and investments are further categorized as follows:

	Bank Deposits and Petty Cash	Investments	Total
Unrestricted cash and investments	\$ 10,000,312	\$ 8,470,206	\$ 18,470,518
Restricted cash and investments	-	6,229,151	6,229,151
General cash and investments	10,000,312	14,699,357	24,699,669
Permanent fund	-	45,638,904	45,638,904
Total Cash and Investments	\$ 10,000,312	\$ 60,338,261	\$ 70,338,573

General Investments

Investment Policy

The investment policy for funds other than the Permanent Fund authorizes the Borough to invest only in the following instruments: U.S. Treasury securities; other obligations guaranteed by the U.S. government or its agencies or instrumentalities; repurchase agreements with financial institutions; certificates of deposits and other deposits at banks and savings and loan associations (collateralized); uncollateralized deposits at banks and savings and loan associations to the extent that the deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation; bonds and notes issued by any state or political subdivision thereof graded A or high by Moody's Investor's Service, Inc. or Standard and Poor's Corporation; prime commercial paper graded A1 or higher by Moody's Investor's Service, Inc. or P1 or higher by Standard and Poor's Corporation; obligations of corporations graded "Baa" or higher by Moody's Investor's Service, Inc. or Standard and Poor's Corporation and issued in the United States and denominated in US dollars; the Alaska Municipal League Investment Pool (AMLIP); income producing real estate investments.

General investment balances and maturities at June 30, 2019 are as follows:

Investment Type	Fair Value	Investment Maturities (in years)	
		Less than 1	1-5
Money market funds	\$ 4,585,745	\$ -	\$ -
U.S. treasuries	8,755,230	7,194,201	1,561,029
Local government investment pool (AMLIP)	1,358,382	-	-
Total General Investments	\$ 14,699,357	\$ 7,194,201	\$ 1,561,029

Fair Value Measurement

The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

The Borough has the following recurring fair value measurements as of June 30, 2019:

U.S. treasury securities of \$8,755,230 are valued using models with various inputs such as but not limited to daily cash flow, snapshots of market indices and spread scales (Level 2 inputs).

The Borough has investments in money market funds totaling \$4,585,745 that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2019. The Borough's investment in AMLIP of \$1,358,382 is measured at net asset value, as of June 30, 2019. Management believes these values approximate fair value.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the duration of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Borough has no formal policy relating to interest rate risk.

Credit Risk

Money market funds are subject to credit risk because of the repurchase and sale agreement features within the money market demand deposit cash accounts.

The Borough's investments in U.S. treasury bonds are rated AA+ by Standard and Poor's. The AMLIP is an external investment pool and is rated AAAm for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the Pool. The law sets forth numerous requirements regarding authorized investments and reporting. The Pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statute 37.23.050 requires the retention of an investment manager. The manager is required to produce monthly disclosure statements on the Pool. The Pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the Pool is voluntary. The Pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the Pool are reviewed for fair value by an independent pricing service. As of June 30, 2019, the fair value of the investments in the Pool approximates amortized cost and is equal to the value of Pool shares.

Separately issued financial statements for AMLIP may be obtained by contacting the sponsor at 212 Second Street, Suite 200, Juneau, AK 99801. A portion of the general cash pool represents bond proceeds and is subject to arbitrage yield restrictions.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. As of June 30, 2019, the Borough did not have any investments in international debt obligations or equity mutual funds and was therefore not subject to Foreign Currency Risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough's deposit policy for custodial credit risk is to collateralize its primary demand deposit account. As of June 30, 2019, the Borough had no bank deposits that were not insured or collateralized.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Borough has no debt securities exposed to custodial credit risk at June 30, 2019 because the investments were held by a custodian in the name of the Borough.

Permanent Fund Investments

The Permanent Fund is reporting \$45,638,904 in cash and investments at June 30, 2019.

Investment Policy

The investment policy for the Permanent Fund authorizes the Borough to invest in domestic (U.S.) equities (both large cap and mid cap), international equities, emerging market equities, real estate investment trusts, and fixed income investments. For 2019, the target allocation was 24% U.S. equities (large cap), 7% U.S. equities (mid-cap), 3% U.S. equities (small-cap), 12% international equities, 5% emerging market equities, 5% real estate investment trusts, 5% infrastructure, 5% commodities, 19% U.S. fixed income, 10% U.S. TIPS, and 5% cash. A range of 18-30% for U.S. equities (large cap), 2-12% for U.S. equities (mid-cap), 0-6% for U.S. equities (small-cap), 6-18% international equities, 0-10% emerging market equities, 0-10% real estate investment trusts, 0-10% infrastructure, 0-10% commodities, 10-30% U.S. fixed income, 0-15% U.S. TIPS, and 0-10% cash are allowed to accommodate normal market fluctuations and prevent frequent rebalancing.

Interest Rate Risk

Because the Permanent Fund is designed to hold principal investments perpetually in trust for the future earnings to benefit the present and future generations of Borough residents, there are no maturity limitations in the policy. The policy focuses more on limiting interest rate risk by diversification in many investment types. A segmented time distribution of all investment types is presented below in an effort to disclose those investment types and amounts that are subject to interest rate risk.

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Permanent Fund investment balances and maturities at June 30, 2019 are as follows:

<i>Investment type</i>	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
U.S. treasuries	\$ 4,169,632	\$ -	\$ 2,395,965	\$ 1,773,667	\$ -
U.S. TIPS	4,544,838	-	4,544,838	-	-
U.S. agencies	1,123,673	-	423,653	700,020	-
Mortgage backed securities	539,735	-	-	16,233	523,502
Corporate bonds	2,727,882	-	2,105,727	622,155	-
Total	13,105,760	\$ -	\$ 9,470,183	\$ 3,112,075	\$ 523,502
U.S. equities (large cap)	11,008,809				
U.S. equities (mid cap)	3,142,156				
U.S. equities (small cap)	1,405,126				
International equities	7,788,489				
Emerging market equities	2,331,518				
Real estate investment trusts	2,300,048				
Commodities	2,215,735				
Money market funds	2,341,263				
Total Permanent Fund	\$ 45,638,904				

As of June 30, 2019, an actual asset allocation to target allocation is presented below. All categories fell within the allowable range at June 30, 2019.

<i>Investment Class</i>	Actual \$	Actual vs. Target Allocation			
		% Actual	% Target	% Difference	% out of Policy Range
U.S. equities (large cap)	\$11,008,809	24.12%	24%	0.12%	n/a
U.S. equities (mid cap)	3,142,156	6.88%	7%	-0.12%	n/a
U.S. equities (small cap)	1,405,126	3.08%	3%	0.08%	n/a
International equities	7,788,489	17.07%	12%	5.07%	n/a
Emerging market equities	2,331,518	5.11%	5%	0.11%	n/a
Real estate investment trusts	2,300,048	5.04%	5%	0.04%	n/a
Infrastructure	-	-%	5%	-5.00%	n/a
Commodities	2,215,735	4.86%	5%	-0.14%	n/a
U.S. fixed income	8,560,922	18.76%	19%	-0.24%	n/a
U.S. TIPS	4,544,838	9.95%	10%	-0.05%	n/a
Cash	2,341,263	5.13%	5%	0.13%	n/a
Total	\$45,638,904	100.00%	100%	0.00%	n/a

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Fair Value Measurement

The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Borough has the following recurring fair value measurements as of June 30, 2019:

Investments are classified in the fair value hierarchy as follows:

<i>Investments by Fair Value Level</i>	Fair Value	Level 1	Level 2
U.S. treasuries	\$ 4,169,632	\$ -	\$ 4,169,632
U.S. TIPS	4,544,838	-	4,544,838
U.S. agencies	1,123,673	-	1,123,673
Mortgage backed securities	539,735	-	539,735
Corporate bonds	2,727,882	-	2,727,882
U.S. equities (large cap)	11,008,809	11,008,809	-
U.S. equities (mid cap)	3,142,156	3,142,156	-
U.S. equities (small cap)	1,405,126	1,405,126	-
International equities	7,788,489	7,788,489	-
Emerging market equities	2,331,518	2,331,518	-
Real estate investment trusts	2,300,048	2,300,048	-
Commodities	2,215,735	2,215,735	-
Total Investments by Fair Value Level	\$ 43,297,641	\$ 30,191,881	\$ 13,105,760
<i>Investments Measured at Amortized Cost -</i>			
Money market funds	2,341,263		
Total Investments	\$ 45,638,904		

The Permanent Fund's investments classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investments classified as Level 2 of the fair value hierarchy are valued using models with various inputs such as but not limited to daily cash flow, snapshots of market indices and spread scales.

The Borough's investments in infrastructure and commodities asset classes are held in exchange-traded funds.

The Borough has investments in money market funds totaling \$2,341,263 that are not held at fair value but are instead recorded at amortized cost as of June 30, 2019.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Credit Risk

Investment Type	Fair Value	Credit Quality Ratings		
		Moody's		Not Rated
		Aaa to A3	Baa1 to Baa3	
U.S. treasuries	\$ 4,169,632	\$ 4,169,632	\$ -	\$ -
U.S. TIPS	4,544,838	4,544,838	-	-
U.S. agencies	1,123,673	1,123,673	-	-
Mortgage backed securities	539,735	539,735	-	-
Corporate bonds	2,727,882	2,270,340	457,542	-
Investments not subject to credit risk	32,533,144	-	-	-
Total Investments	\$ 45,638,904	\$ 12,648,218	\$ 457,542	\$ -

The Permanent Fund policies specifically limit the types of investments that can be purchased in an effort to limit credit risk. The policies allow for the investment in U.S. treasuries and U.S. agencies and obligations guaranteed by the U.S. government or its agencies and instrumentalities. The policies limit corporate bonds to those investments graded "Baa" or higher by Moody's Investor's Service Inc. or Standard and Poor's Corporation and issued in the United States and denominated in U.S. dollars. Not more than 15% of the fixed income portfolio may be held in Baa rated securities.

Concentration of Credit Risk

The Permanent Fund aims to diversify and limit concentration investment risk by investing in a variety of issuers and fixed income securities; however, the Permanent Fund has no formal policy addressing concentration of credit risk.

Foreign Currency Risk

As of June 30, 2019, a total of \$10,120,007 (22%) of the total fund value is invested in international and emerging market equities that are considered subject to Foreign Currency Risk.

Custodial Credit Risk

This is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments that are in the possession of an outside party. The Borough has no investments exposed to custodial credit risk at June 30, 2019 because the investments were held by a custodian in the name of the Borough.

3. Investments in Southwest Governments, LLC

The Borough has an interest in Southwest Governments, LLC. The partnership was formed by the City of Akutan (40%), the City of Sand Point (20%), the City of King Cove (10%), and the Borough (30%). The Borough leases office space from the partnership. There were no payments to the partnership for the year. The partnership paid the Borough \$30,000 in distributions during 2019. The distributions were recorded as other income in the General Fund. The balance of the Borough's ownership at June 30, 2019 was \$436,522.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

4. Capital Assets

Capital asset activity for the year ended June 30, 2019 is as follows:

Governmental Activities	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated - land	\$ 5,323,074	\$ -	\$ -	\$ 5,323,074
Capital assets being depreciated:				
Buildings and improvements	46,078,343	278,556	-	46,356,899
Infrastructure	100,342,726	137,880	-	100,480,606
Furniture and equipment	283,498	-	-	283,498
Vehicles	407,301	-	-	407,301
Total capital assets being depreciated	147,111,868	416,436	-	147,528,304
Less accumulated depreciation	69,777,224	3,731,989	-	73,509,213
Total capital assets being depreciated, net	77,334,644	(3,315,553)	-	74,019,091
Governmental Activities Capital Assets, net	\$ 82,657,718	\$ (3,710,991)	\$ -	\$ 79,342,165
Business-type Activities	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets being depreciated:				
Terminal Helicopter	\$ 7,403,571	\$ -	\$ -	\$ 7,403,571
	97,554	-	-	97,554
Total capital assets being depreciated	7,501,125	-	-	7,501,125
Less accumulated depreciation	2,479,435	265,905	-	2,745,340
Business-type Activities Capital Assets, net	\$ 5,021,690	\$ (265,905)	\$ -	\$ 4,755,785

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Depreciation expense was charged to the functions as follows for the year ended June 30, 2019:

Governmental Activities

General government	\$ 634,025
Infrastructure	3,097,964
Total Depreciation Expense - Governmental Activities	\$ 3,731,989

Business-type Activities

Terminal	\$ 252,898
Helicopter	13,007
Total Depreciation Expense - Business-type Activities	\$ 265,905

5. Interfund Receivables, Payables and Transfers

Interfund receivables and payables are shown as “due from other funds” and “due to other funds” in each individual fund. These balances at June 30, 2019, were as follows:

	Due from Other Funds	Due to Other Funds
Governmental Funds:		
General Fund	\$ 865,519	\$ -
Capital Improvements	392,773	-
Trust Fund	892,975	-
Bond Construction	-	(2,247,809)
Maintenance Reserve	843	-
Total Governmental Funds	2,152,110	(2,247,809)
Enterprise Funds:		
Terminal	129,752	-
Helicopter	-	(34,053)
Total Due From (to) Other Funds	\$ 2,281,862	\$ (2,281,862)

A schedule of interfund transfers for the year ended June 30, 2019, follows:

From the General Fund to:	
Debt Service Fund for debt service	\$ 2,472,203
Maintenance Reserve Capital Project Fund for capital projects and acquisitions	475,033
Helicopter Enterprise Fund for operating subsidy	125,743
Total Transfers to Other Funds	\$ 3,072,979

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

6. Operating Leases

The Borough has leased to third-parties commercial space in the Cold Bay Terminal Building. The Leases are long-term and allow the lessee(s) to use the leased space for commercial purposes tied to the Cold Bay Terminal Building. There are no minimum guarantees for any of the leases. Future minimum lease payments scheduled for these agreements are as follows:

<i>Year Ending June 30,</i>	<i>Total</i>
2020	\$ 141,507
2021	141,507
2022	141,507
2023	127,922
2024	60,000
2025-2029	255,000
	\$ 867,443

7. Long-term Debt

Following is a summary of general obligation bond transactions of the Borough for the year ended June 30, 2019:

Governmental Activities	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Bonds Payable:					
General Obligation bonds	\$ 21,900,000	\$ -	\$ (1,450,000)	\$ 20,450,000	\$ 1,520,000
Issuance premiums	2,581,711	-	(404,686)	2,177,025	-
Total bonds payable	24,481,711	-	(1,854,686)	22,627,025	1,520,000
Accrued leave	80,981	71,959	(72,597)	80,343	80,343
Total Governmental Activities	\$ 24,562,692	\$ 71,959	\$ (1,927,283)	\$ 22,707,368	\$ 1,600,343

For governmental activities, accrued leave is generally liquidated by the General Fund.

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

General obligation bonds payable at June 30, 2019, are comprised of the following:

\$4,900,000 - 2010 Series A&B for Akutan Airport and King Cove Access Project, due in annual installments ranging from \$235,000 to \$320,000 through October 1, 2031; interest rate is variable from 2.0 to 5.4 percent	\$ 3,305,000
\$3,450,000 - 2011 Refunding series three for Aleutians East Borough bonds, due in annual installments ranging from \$200,000 to \$225,000 through September 2021; interest rate is variable from 2.0 to 5.0 percent	640,000
\$2,205,000 - 2015 Refunding series one for Aleutians East Borough bonds, due in annual installments ranging from \$195,000 to \$245,000 through October 1, 2025; interest rate is variable from 2.0 to 5.0 percent	1,225,000
\$17,155,000 - 2016 Refunding series three for refinancing of 2007 refunding bonds, due in annual installments ranging from \$890,000 to \$2,155,000 through December 1, 2028; interest rate is variable from 3.75 to 5.0 percent	15,280,000
Total bonds payable	\$ 20,450,000

Annual required installments on all Borough general obligation bonds as of June 30 are as follows:

<i>Year Ending June 30,</i>	Principal	Interest	Total
2020	\$ 1,520,000	\$ 962,416	\$ 2,482,416
2021	1,595,000	897,493	2,492,493
2022	1,685,000	825,302	2,510,302
2023	1,805,000	743,191	2,548,191
2024	1,945,000	649,636	2,594,636
2025-2029	11,270,000	1,640,062	12,910,062
2030	630,000	34,494	664,494
	\$ 20,450,000	\$ 5,752,594	\$ 26,202,594

Component Units

The following is a summary of long-term debt transactions for the Borough's discretely presented component unit for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Accrued leave	\$ 54,978	\$ 124,711	\$ (142,360)	\$ 37,929	\$ 37,929

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

8. Retirement Plans

(a) Defined Benefit (DB) Pension Plan

General Information About the Plan

The Borough participates in the Alaska Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/dr/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

The Plan provides for retirement, death and disability, and post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the Defined Benefit (DB) plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. Police/Fire employees accrue benefits at an accelerated rate. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and other OPEB benefits. A complete benefit comparison chart is available at the website noted above.

The PERS DB Plan was closed to new entrants effective July 1, 2006. New employees hired after that date participate in the PERS Defined Contribution (DC) Plan described later in these notes.

Historical Context and Special Funding Situation

In April 2008, the Alaska Legislature passed legislation converting the previously existing PERS plan from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded "on-behalf" contribution (subject to funding availability), and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan described later in these notes. The Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process.

Alaska Statute 39.35.255 requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan's past service liability contribution rate as adopted by the Alaska Retirement Management Board. As such, the Plan is considered to be in a special funding situation as defined by GASB, and management has recorded all pension related liabilities, deferred inflows/outflows of resources, and disclosures on this basis.

The Borough recorded the related on-behalf contributions as revenue and expense or expenditures as prescribed by GAAP, pursuant to the relevant basis of accounting based on fund type.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary. Police and firefighters are required to contribute 7.50% of their annual covered salary.

Employer and Other Contribution Rates

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% of eligible wages, subject to a wage floor, and other termination events. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This change results in lower ARM Board Rates than previously adopted.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. In the enterprise fund and government-wide financial statements, the on-behalf amounts reflect revenue and expense only during the measurement period in which the Plan recognizes the payments, resulting in a significant timing difference between the cash transfers and revenue and expense recognition.

GASB Rate: This is the rate used to determine the long-term pension liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. For 2019, the rate uses an 8% pension discount rate.

The GASB Rate and the ARM Board Adopted Rate differ significantly as a direct result of variances in the actuarial methods and assumptions used.

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Contribution rates for the year ended June 30, 2019 were determined in the June 30, 2016 actuarial valuation.

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate
Pension	16.17%	23.21%	5.58%
Postemployment healthcare (ARHCT)	5.83%	4.37%	0.00%
Total Contribution Rates	22.00%	27.58%	5.58%

In 2019, the Borough was credited with the following contributions to the pension plan.

	Measurement Period July 1, 2017 to June 30, 2018	Borough Fiscal Year July 1, 2018 to June 30, 2019
Employer contributions (including DBUL)	\$ 144,604	\$ 156,444
Nonemployer contributions (on-behalf)	28,644	55,098
Total Contributions	\$ 173,248	\$ 211,542

In addition, employee contributions to the Plan totaled \$34,568 during the Borough's fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2019, the Borough reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Borough. The amount recognized by the Borough for its proportional share, the related State proportion, and the total portion of the net pension liability that was associated with the Borough were as follows:

	2019
Borough proportionate share of NPL	\$ 1,453,693
State's proportionate share of NPL associated with the Borough	419,234
Total Net Pension Liability	\$ 1,872,927

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 to calculate the net pension liability as of that date. The Borough's proportion of the net pension liability was based on a projection of the Borough's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2018 measurement date, the Borough's proportion was 0.02926 percent, which was a decrease of 0.001205 from its proportion measured as of June 30, 2017.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

For the year ended June 30, 2019, the Borough recognized pension expense of \$106,289 and on-behalf revenue of \$19,629 for support provided by the State. At June 30, 2019, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (36,485)
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	32,105	-
Changes in proportion and differences between Borough contributions and proportionate share of contributions	-	(10,340)
Borough contributions subsequent to the measurement date	156,444	-
Total Deferred Outflows and Deferred Inflows of Resources Related to Pensions	\$ 188,549	\$ (46,825)

The \$156,444 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,

2020	\$ (5,991)
2021	17,555
2022	(24,876)
2023	(1,408)
2024	-
Thereafter	-
Total Amortization	\$ (14,720)

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Actuarial Assumptions

The total pension liability for the measurement period ended June 30, 2018 was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2018:

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level dollar, closed
Inflation	3.12%
Salary increases	For peace officer/firefighter, increases range from 9.66% to 4.92% based on service. For all others, increases range from 8.55% to 4.34% based on age and service.
Allocation Methodology	Amounts for FY 2018 were allocated to employers based on the ratio of the present value of projected future contributions for each employer to the total present value of projected future contributions for the fiscal years 2019 to 2039 to the Plan. The liability is expected to go to zero at 2039.
Investment Return / Discount Rate	8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Mortality	Pre-termination - Based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for peace officers/firefighters, 50% of the time for others. Post-termination - 96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.

The actuarial assumptions used in the June 30, 2017 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013. The assumptions used in the June 30, 2017 actuarial valuation report are the same as those used in the June 30, 2016 actuarial valuation.

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 are summarized in the following table (note that the rates shown below exclude the inflation component):

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-Term Expected Real Rate of Return</i>
Domestic equity	24%	8.90%
Global ex-U.S. equity	22%	7.85%
Fixed income	10%	1.25%
Opportunistic	10%	4.76%
Real assets	17%	6.20%
Absolute return	7%	4.76%
Private equity	9%	12.08%
Cash equivalents	1%	0.66%

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Borough's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the Borough's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	<i>Proportional Share</i>	<i>1% Decrease (7.00%)</i>	<i>Current Discount Rate (8.00%)</i>	<i>1% Increase (9.00%)</i>
Borough's proportionate share of the net pension liability	0.02926%	\$ 1,925,057	\$ 1,453,693	\$ 1,054,977

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

(b) Defined Contribution (DC) Pension Plan

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. <http://doa.alaska.gov/dr/pers>.

Contributions to the DC plan consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that the Borough contribute at 22%. After deducting the DC plan contributions (and related OPEB contributions), the remaining remittance (the DBUL) is deposited into the DB plan as noted earlier.

Benefit Terms

Employees are immediately vested in their own contributions and vest 25% with two years of service, plus an additional 25% per year thereafter for full vesting at five years of service. Nonvested employer contributions are forfeited upon termination of employment from the plan. Such forfeitures were applied in the year ended June 30, 2019, to cover a portion of the Borough's employer match contributions. For the year ended June 30, 2019, forfeitures reduced pension expense by \$20,672.

Employee Contribution Rate

Employees are required to contribute 8% of their annual covered salary. This amount goes directly to the individual's account.

Employer Contribution Rate

For the year ended June 30, 2019, the Borough was required to contribute 5% of covered salary into the Plan.

The Borough and employee contributions to PERS for pensions for the year ended June 30, 2019 were \$20,672 and \$33,052, respectively. The Borough contribution amount was recognized as pension expense/expenditures.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

(c) Defined Benefit OPEB Plan

As part of its participation in PERS, the Borough participates in the following cost sharing multiple employer defined benefit OPEB plans: Alaska Retiree Healthcare Trust (ARHCT), Retiree Medical Plan (RMP) and Occupational Death and Disability Plan (ODD). The ARHCT is self-funded and provides major medical coverage to retirees of the DB Plan. Benefits vary by Tier level. The RMP provides major medical coverage to retirees of the PERS DC Plan (Tier IV). The ODD provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within PERS. The Plans are administered by the State of Alaska, Department of Administration. The OPEB plans are included in the comprehensive annual financial report for PERS, at the following website, as noted above: <http://doa.alaska.gov/drb/pers>.

Employer Contribution Rate

Employer contribution rates are actuarially determined and adopted by the Board. Employees do not contribute.

Employer contribution rates for the year ended June 30, 2019 were as follows:

	Other	Police/Fire
Alaska Retiree Healthcare Trust	5.83%	5.83%
Retiree Medical Plan	0.94%	0.94%
Occupational Death and Disability Benefits	0.26%	0.76%
Total Contribution Rates	7.03%	7.53%

In 2019, the Borough was credited with the following contributions to the OPEB plans:

	Measurement Period July 1, 2017 to June 30, 2018	Borough Fiscal Year July 1, 2018 to June 30, 2019
Employer contributions - ARHCT	\$ 45,399	\$ 53,413
Employer contributions - RMP	3,852	3,889
Employer contributions - ODD	598	1,075
Nonemployer contributions (on-behalf)- ARCHT	-	-
Total Contributions	\$ 49,849	\$ 58,377

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plans

At June 30, 2019, the Borough reported a liability for its proportionate share of the net OPEB liabilities (NOL) that reflected a reduction for State OPEB support provided to the Borough. The amount recognized by the Borough for its proportional share, the related State proportion, and the total were as follows:

	2019
Borough's proportionate share of NOL - ARHCT	\$ 299,740
Borough's proportionate share of NOL - RMP	4,205
Borough's proportionate share of NOL (Asset) - ODD	(6,418)
Total Borough's Proportionate Share of NOL (Asset)	297,527
State's proportionate share of the ARHCT NOL associated with the Borough	87,351
Total Net OPEB Liabilities	\$ 384,878

The total OPEB liabilities for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 to calculate the net OPEB liabilities as of that date. The Borough's proportion of the net OPEB liabilities were based on a projection of the Borough's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating entities, actuarially determined.

	June 30, 2017 Measurement Date Employer Proportion	June 30, 2018 Measurement Date Employer Proportion	Change
Borough's proportionate share of the net OPEB liabilities (asset):			
ARHCT	0.03052%	0.02921%	(0.00131)%
RMP	0.03299%	0.03305%	0.00006%
ODD	0.03299%	0.03305%	0.00006%

As a result of its requirement to contribute to the Plan, the Borough recognized OPEB expense of \$103,303 and on-behalf revenue of \$11,467 for support provided by the State associated with the ARHCT plan.

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

At June 30, 2019, the Borough reported deferred outflows of resources and deferred inflows of resources related to OPEB plans from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (34,075)
Changes in assumptions	47,422	-
Changes in benefits	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(64,357)
Changes in proportion and differences between Borough contributions and proportionate share of contributions	4,232	(11,366)
Borough contributions subsequent to the measurement date	58,377	-
Total Deferred Outflows and Deferred Inflows of Resources Related to OPEB Plans	\$ 110,031	\$ (109,798)

The \$58,377 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,

2020	\$ (22,188)
2021	(13,290)
2022	(21,044)
2023	(1,446)
2024	(55)
Thereafter	(121)
Total Amortization	\$ (58,144)

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Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Actuarial Assumptions

The total OPEB liability for the measurement period ended June 30, 2018 (Borough fiscal year 2019) was determined by actuarial valuations as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2018:

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level dollar, closed
Inflation	3.12%
Salary increases	Graded by service, from 9.66% to 4.92% for Peace Officer/Firefighter. Graded by service from 8.55% to 4.34% for all others
Allocation Methodology	Amounts for 2018 were allocated to employers based on the projected present value of contributions for FY2019-FY2039. The liability is expected to go to zero at 2039.
Investment Return / Discount Rate	8.00%, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Healthcare cost trend rates	Pre-65 medical; 8.0% grading down to 4.0% Post-65 medical; 5.5% grading down to 4.0% Prescription drug; 9.0% grading down to 4.0% RDS/EGWP:6.5% grading down to 4.0%
Mortality	Pre-termination - Based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for peace officers/firefighters, 50% of the time for all others. Post-termination - 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.
Participation (ARHCT)	100% system paid of members and their spouses are assumed to elect the healthcare benefits paid as soon as they are eligible. 10% of nonsystem paid members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible.

The actuarial assumptions used in the June 30, 2017 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013. The assumptions used in the June 30, 2017 actuarial valuation are the same as those used in the June 30, 2016 valuation with the following exceptions:

1. The medical trend rate assumption was updated to reflect anticipated increases in costs based on recent survey data.
2. An obligation for the Cadillac Tax was added to the June 30, 2017 valuation because it was no longer deemed immaterial due to the updated trend rates and the change to use chained Consumer Price Index (which was part of the Tax Cut and Jobs Act passed in December 2017) to project the tax thresholds in future years.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of postretirement healthcare plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-Term Expected Real Rate of Return</i>
Broad domestic equity	24%	8.90%
Global ex-U.S. equity	22%	7.85%
Fixed income	10%	1.25%
Opportunistic	10%	4.76%
Real assets	17%	6.20%
Absolute return	7%	4.76%
Private equity	9%	12.08%
Cash equivalents	1%	0.66%

Discount Rate

The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the Borough's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 8.00%, as well as what the Borough's proportionate share of the respective plan's net OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	<i>Proportional Share</i>	<i>1% Decrease (7.00%)</i>	<i>Current Discount Rate (8.00%)</i>	<i>1% Increase (9.00%)</i>
Borough's proportionate share of the net OPEB liability (asset):				
ARHCT	0.02921%	\$ 606,824	\$ 299,740	\$ 42,341
RMP	0.03305%	\$ 12,558	\$ 4,205	\$ (2,310)
ODD	0.03305%	\$ (6,027)	\$ (6,418)	\$ (6,740)

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates

The following presents the Borough's proportionate share of the net OPEB liability (asset) calculated using the healthcare cost trend rate, as well as what the Borough's proportionate share of the respective plan's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are one-percentage point lower or one-percentage-point higher than the current healthcare cost trend rates:

	Proportional Share	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Borough's proportionate share of the net OPEB liability (asset):				
ARHCT	0.02921%	\$ 5,818	\$ 299,740	\$ 653,798
RMP	0.03305%	\$ (3,575)	\$ 4,205	\$ 14,618
ODD	0.03305%	\$ N/A	\$ N/A	\$ N/A

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued PERS financial report.

(d) Defined Contribution OPEB Plans

PERS defined contribution members also participate in the Health Reimbursement Arrangement Plan (HRA Plan). The HRA plan allows for medical care expenses to be reimbursed from individual savings accounts established for eligible person. The HRA Plan became effective July 1, 2006, at which time contributions by employers began.

Contribution Rates

AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of *all employees of all employers* in the plan". As of July 1, 2018, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates \$2,103 per year for each full-time employee, and \$1.35 per hour for part-time employees.

Annual Postemployment Healthcare Cost

In 2019, the Borough contributed \$14,828 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

9. Deferred Compensation Plan

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Borough (without being restricted to provisions of benefits under the plan), subject only to claims of the Borough's general creditors. Participants' rights under the plan are equal to those of general creditors of the Borough in the amount equal to fair market value of the deferred account for each participant.

The Borough has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Borough believes it is unlikely it will use the assets to satisfy claims of general creditors in the future. Assets of the fund totaled \$649,064 at June 30, 2019 and are accounted for in the deferred compensation agency fund.

10. Contribution to Aleutians East Borough School District

During the year ended June 30, 2019, the Borough contributed \$1,168,141 to the Aleutians East Borough School District, which is a component unit of the Borough. Of this amount, \$900,000 was for a local contribution, \$35,000 was for scholarships, \$20,000 was for student travel, and \$213,141 was for in-kind support related to facility maintenance, insurance and usage of space.

11. Commitments and Contingencies

(a) Grants

The Borough participates in a number of federal and state grant programs. These programs are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures that may be disallowed by granting agencies cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

(b) Helicopter Transportation Contract

During fiscal year 2014, the Borough entered into a contract to transport people and mail from Akutan Airport to the City of Akutan. On January 30, 2019, the Borough entered into a Helicopter Services Agreement with Maritime Helicopters (Maritime). Maritime agreed to provide Essential Air Service (EAS) between Akutan and Akutan Airport located on Akun Island and the Borough agreed to pay 50% of the EAS costs for the services provided by Maritime. The term of this agreement began on February 1, 2019 and ends on December 31, 2020.

(c) Litigation

A restitution payable by the Army Corps of Engineers of \$20,650,253 was awarded on December 5, 2017 in regards to the claim from Kelly-Ryan, Inc., against the Army Corps of Engineers arising from a contract dispute relating to the construction of the False Pass Harbor. Since the project cooperation agreement between the Department of the Army and the Borough provides for cost sharing on the part of the Borough, the Borough is liable for part of the restitution awarded. As of April 30, 2020, no agreement has been reached between the Borough and the Army Corps of Engineers as to the restitution payable by the Borough.

At the date of the financial statements, the amount of loss contingencies, if any, were not reasonably determinable, and deemed neither probable nor remote, hence no contingencies have been booked in the current year.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

The Borough entered into a Project Partnership Agreement with the Army Corps of Engineers for the False Pass Harbor Project. The Borough may owe \$650,000 for the second 10% of the project. Currently, the Borough has not received a final statement from the Army Corps of Engineers showing the amount owed and no agreement has been reached between the Borough and the Army Corps of Engineers for payment.

12. Subsequent Events

In preparing these financial statements, the Borough has evaluated all other events and transactions for potential recognition or disclosure through April 30, 2020, the date the financial statements were issued.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the coronavirus as a pandemic, based on the rapid increase in exposure globally.

The Borough’s operations are heavily dependent on the ability to collect fish taxes and assess fees for helicopter services. Additionally, access to grants and contracts from the federal government and the State of Alaska may decrease or may not be available depending on appropriations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation is expected to adversely impact the fish tax revenue base, demand for helicopter services, and to depress the value of the Borough’s investments in marketable securities. The situation may also adversely impact the Borough’s ability to deploy its workforce as effectively. While expected to be temporary, prolonged workforce disruptions may negatively impact performance of services. As such, this may hinder our ability for the Borough to meet the needs of its constituents. As such, our financial condition and liquidity may be negatively impacted for the fiscal year 2020.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief and Economic Security (CARES) Act.” The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to States and certain local governments. There is no assurance the Borough is eligible for these funds or will be able to obtain them. The Borough continues to examine the impact that the CARES Act may have. Currently, the Borough is unable to determine the impact that the CARES Act will have on the Borough’s financial condition, results of operations or liquidity.

13. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, and actual impacts have not yet been determined.

GASB 84 - *Fiduciary Activities* - Effective for year-end June 30, 2020, with earlier application encouraged - This statement addresses criteria for identifying and reporting fiduciary activities.

Aleutians East Borough, Alaska

Notes to Basic Financial Statements

GASB 87 - *Leases* - Effective for year-end June 30, 2021, with earlier application encouraged - This statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period* - Effective for year-end June 30, 2021, with earlier application encouraged - This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

GASB 90 - *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61* - Effective for year-end June 30, 2020, with earlier application encouraged - This statement addresses accounting and financial reporting for a majority equity interest in a legally separate organization. It provides a definition of a majority equity interest and provides guidance for further presentation as either an investment or a component unit, based on specific criteria.

GASB 91 - *Conduit Debt Obligations* - Effective for year-end June 30, 2022, with earlier application encouraged - This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit obligations, and related note disclosures. This statement clarifies the definition of a conduit debt obligation and establishes standards for related accounting and financial reporting.

GASB 92 - *Omnibus 2020* - Provisions of this statement related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. All other requirements are required to be implemented for year-end June 30, 2021. This statement addresses a variety of topics such as leases, the applicability of Statement 73 and Statement 74 for reporting assets accumulated for postemployment benefits, the applicability of Statement 84 to postemployment benefit arrangements, the measurements of liabilities and assets related to asset retirement obligations in a government acquisition, reporting of public entity risk pools, referencing to nonrecurring fair value measurements, and terminology used to refer to derivative instruments.

GASB 93 - *Replacement of Interbank Offered Rates* - The provisions of this statement, except for paragraph 11b, are required to be implemented for year-end June 30, 2021. The requirements in paragraph 11b are required to be implemented for year-end June 30, 2022. This statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

GASB 94 - *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* - Effective for year-end June 30, 2023 - This statement addresses issues related to public-private and public-public partnership arrangements (PPP). This statement provides a definition of a PPP, defines PPPs that meet the definition of a service concession arrangement, and provides a definition and guidance for accounting and financial reporting for availability payment arrangements.

Required Supplementary Information

Aleutians East Borough, Alaska
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual

<i>Year Ended June 30, 2019</i>	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget
Revenues				
Federal government	\$ 559,000	\$ 628,227	\$ 628,227	\$ -
State of Alaska	3,531,508	3,035,010	3,090,108	55,098
Borough raw fish tax	3,560,381	4,619,039	4,619,039	-
Investment income	35,000	41,781	41,781	-
Other	86,256	221,806	122,851	(98,955)
Total Revenues	7,772,145	8,545,863	8,502,006	(43,857)
Expenditures				
Current:				
Mayor's office	269,098	280,530	280,530	-
Assembly	158,000	225,888	225,888	-
Clerk and planning management	200,440	197,589	197,589	-
Administration	449,335	375,556	312,909	62,647
Assistant administrator	145,275	141,341	141,341	-
Finance	292,689	343,912	343,912	-
Resource department	267,399	387,715	281,355	106,360
Communications manager	181,028	170,052	170,052	-
Public works	118,980	126,368	126,368	-
King cove access project	122,000	100,734	100,734	-
Other	1,690,922	1,675,252	1,844,256	(169,004)
Total Expenditures	3,895,166	4,024,937	4,024,934	3
Excess of Revenues Over Expenditures	3,876,979	4,520,926	4,477,072	(43,854)
Other Financing Sources and Uses				
Transfers in	-	53,693	-	(53,693)
Transfers out	(3,393,758)	(2,900,597)	(3,072,979)	(172,382)
Total Other Financing Sources and Uses	(3,393,758)	(2,846,904)	(3,072,979)	(226,075)
Net Change in Fund Balances	\$ 483,221	\$ 1,674,022	1,404,093	\$ (269,929)
Fund Balances, beginning			18,310,043	
Fund Balances, ending			\$ 19,714,136	

See accompanying notes to Required Supplementary Information.

Aleutians East Borough, Alaska
Public Employees' Retirement System - Pension Plan
Schedule of the Borough's Proportionate Share of the Net Pension Liability

<i>Years Ended June 30,</i>	2019	2018	2017	2016	2015
Borough's Proportion of the Net Pension Liability	0.02926%	0.03046%	0.03650%	0.03284%	0.02858%
Borough's Proportionate Share of the Net Pension Liability	\$ 1,453,693	\$ 1,574,500	\$ 2,040,097	\$ 1,592,614	\$ 1,332,935
State of Alaska Proportionate Share of the Net Pension Liability	419,234	588,884	260,943	426,877	782,704
Total Net Pension Liability	\$ 1,872,927	\$ 2,163,384	\$ 2,301,040	\$ 2,019,491	\$ 2,115,639
Borough's Covered Payroll	871,241	532,514	616,773	576,627	498,241
Borough's Proportionate Share of the Net Pension Liability as a Percentage of Payroll	166.85%	295.67%	330.77%	276.19%	267.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.19%	63.37%	59.55%	63.96%	63.37%

Schedule of the Borough's Contributions

<i>Years Ended June 30,</i>	2019	2018	2017	2016	2015
Contractually Required Contributions	\$ 156,444	\$ 144,604	\$ 117,153	\$ 135,690	\$ 126,858
Contributions Relative to the Contractually Required Contribution	156,444	144,604	117,153	135,690	126,858
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Borough's Covered Payroll	925,266	871,241	532,514	616,773	576,627
Contributions as a Percentage of Covered Payroll	16.91%	16.60%	22.00%	22.00%	22.00%

See accompanying notes to Required Supplementary Information.

Aleutians East Borough, Alaska
Public Employees' Retirement System - OPEB Plans
Schedule of the Borough's Proportionate Share of the Net OPEB Liability

<i>Years Ended June 30,</i>	ARHCT		RMP		ODD	
	2019	2018	2019	2018	2019	2018
Borough's Proportion of the Net OPEB Liability	0.02921%	0.03052%	0.03305%	0.03299%	0.03305%	0.03299%
Borough's Proportionate Share of the Net OPEB Liability	\$ 299,740	\$ 257,835	\$ 4,205	\$ 1,721	\$ (6,418)	\$ (4,681)
State of Alaska Proportionate Share of the Net OPEB Liability	87,351	96,277	-	-	-	-
Total Net OPEB Liability	\$ 387,091	\$ 354,112	\$ 4,205	\$ 1,721	\$ (6,418)	\$ (4,681)
Borough's Covered Payroll	871,241	532,514	871,241	532,514	871,241	532,514
Borough's Proportionate Share of the Net OPEB Liability as a Percentage of Payroll	34.40%	48.42%	0.48%	0.32%	-0.74%	-0.88%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	88.12%	89.68%	88.71%	93.98%	270.62%	212.97%

Schedule of the Borough's Required Contributions

<i>Years Ended June 30,</i>	ARHCT		RMP		ODD	
	2019	2018	2019	2018	2019	2018
Contractually Required Contributions	\$ 53,413	\$ 45,399	\$ 3,889	\$ 3,852	\$ 1,075	\$ 598
Contributions Relative to the Contractually Required Contribution	53,413	45,399	3,889	3,852	1,075	598
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Borough's Covered Payroll	925,266	871,241	925,266	871,241	925,266	871,241
Contributions as a Percentage of Covered Payroll	5.773%	5.21%	0.420%	0.44%	0.116%	0.07%

See accompanying notes to Required Supplementary Information.

Aleutians East Borough, Alaska

Notes to Required Supplementary Information Year Ended June 30, 2019

1. Budgetary Comparison Schedule

The budgetary comparison schedule is presented on the modified accrual basis of accounting.

2. Public Employees' Retirement System Pension Plan

Schedule of the Borough's Proportionate Share of the Net Pension Liability

This table is presented based on the Plan measurement date. For June 30, 2019, the Plan measurement date is June 30, 2018.

Amounts reported reflect a change in assumptions between 2016 and 2017 in the method of allocating the net pension liability from actual contributions to present value of projected future contributions.

GASB requires ten years of information be presented. However, until a full ten years of information is available, the Borough will present only those years for which information is available.

Schedule of the Borough Contributions

This table is based on the Borough's contributions for each fiscal year presented. These contributions have been reported as a deferred outflow of resources on the Statement of Net Position. GASB requires ten years of information be presented. However, until a full ten years of information is available, the Borough will present only those years for which information is available.

3. Public Employees' Retirement System OPEB Plans

Schedule of the Borough's Proportionate Share of the Net OPEB Liability

This table is presented based on the Plan measurement date. For June 30, 2019, the Plan measurement date is June 30, 2018.

Changes in Assumptions: The medical trend rate assumption used for the ARHCT plan was updated to reflect anticipated increases in costs based on recent survey data. An obligation for the Cadillac Tax was added to the June 30, 2017 valuation because it was no longer deemed immaterial due to the updated trend rates and the change to use chained Consumer Price Index (which was part of the Tax Cut and Jobs Act passed in December 2017) to project the tax thresholds in future years.

GASB requires ten years of information be presented. However, until a full 10 years of information is available, the Borough will present only those years for which information is available.

Schedule of the Borough Contributions

This table is based on the Borough's contributions for each fiscal year presented. These contributions have been reported as a deferred outflow of resources on the Statement of Net Position. GASB requires ten years of information be presented. However, until a full ten years of information is available, the Borough will present only those years for which information is available.

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Supplementary Information

Aleutians East Borough, Alaska
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

<i>Year Ended June 30, 2019</i>	Budget	Actual	Variance
Revenues			
Federal government - payments in lieu of taxes	\$ 628,227	\$ 628,227	\$ -
State of Alaska:			
Raw fish tax	1,887,896	1,887,896	-
State bond rebate	654,763	654,763	-
State fish landing tax	72,657	72,657	-
State extraterritorial fish tax	103,328	103,328	-
PERS on-behalf		55,098	55,098
State revenue sharing	316,366	316,366	-
Total State of Alaska	3,035,010	3,090,108	55,098
Borough raw fish tax	4,619,039	4,619,039	-
Investment income	41,781	41,781	-
Other	221,806	122,851	(98,955)
Total Revenues	\$ 8,545,863	\$ 8,502,006	\$ (43,857)
Expenditures			
Mayor's Office:			
Salaries	\$ 80,766	\$ 80,766	\$ -
Fringe benefits	43,773	43,773	-
Travel and per diem	34,451	34,451	-
Telephone	392	392	-
Supplies	3,548	3,548	-
Lobbying	117,600	117,600	-
Total Mayor's Office	280,530	280,530	-
Assembly:			
Salaries	39,000	39,000	-
Fringe benefits	133,832	133,832	-
Travel and per diem	48,811	48,811	-
Supplies	4,245	4,245	-
Total Assembly	225,888	225,888	-

Aleutians East Borough, Alaska

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

<i>Year Ended June 30, 2019</i>	Budget	Actual	Variance
Expenditures, continued:			
Finance:			
Salaries	\$ 148,801	\$ 148,801	\$ -
Fringe benefits	73,951	73,951	-
Travel and per diem	6,844	6,844	-
Telephone	9,980	9,980	-
Postage	999	999	-
Supplies	10,185	10,185	-
Utilities	4,343	4,343	-
Audit	88,809	88,809	-
Total finance	343,912	343,912	-
Resource department:			
Salaries	138,034	138,034	-
Fringe benefits	68,842	68,842	-
Contract	66,000	-	66,000
Travel and per diem	35,678	35,678	-
Telephone	3,240	3,240	-
NPFMC	8,952	8,952	-
Supplies	7,327	7,327	-
BOF meeting	40,360	-	40,360
Rent	19,282	19,282	-
Total resource department	387,715	281,355	106,360
Communications manager:			
Salaries	105,356	105,356	-
Fringe benefits	35,132	35,132	-
Travel and per diem	1,168	1,168	-
Telephone	3,042	3,042	-
Supplies	2,349	2,349	-
Rent	10,196	10,196	-
Advertising	12,809	12,809	-
Total communications manager	170,052	170,052	-
Public works:			
Salaries	70,325	70,325	-
Fringe benefits	28,613	28,613	-
Travel and per diem	20,756	20,756	-
Telephone	64	64	-
Supplies	4,099	4,099	-
Utilities	2,511	2,511	-
Total public works	126,368	126,368	-

Aleutians East Borough, Alaska
General Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

<i>Year Ended June 30, 2019</i>	Budget	Actual	Variance
Expenditures, continued:			
Clerk and planning management:			
Salaries	\$ 100,296	\$ 100,296	\$ -
Fringe benefits	48,073	48,073	-
Travel and per diem	7,711	7,711	-
Telephone	9,219	9,219	-
Postage	292	292	-
Supplies	3,580	3,580	-
Utilities	18,834	18,834	-
Dues and fees	4,634	4,634	-
Elections	4,950	4,950	-
Total clerk and planning management	197,589	197,589	-
Administration:			
Salaries	164,250	164,250	-
Fringe benefits	84,283	84,283	-
Engineering	16,255	16,255	-
Contract	60,430	-	60,430
Anchorage office	2,217	-	2,217
Travel and per diem	13,067	13,067	-
Telephone	5,443	5,443	-
Postage	474	474	-
Supplies	10,698	10,698	-
Rent	15,949	15,949	-
Dues and fees	2,490	2,490	-
Total administration	375,556	312,909	62,647
Assistant administrator:			
Salaries	90,450	90,450	-
Fringe benefits	28,039	28,039	-
Travel and per diem	10,579	10,579	-
Telephone	1,215	1,215	-
Supplies	1,245	1,245	-
Rent	9,813	9,813	-
Total assistant administrator	141,341	141,341	-

Aleutians East Borough, Alaska

General Fund

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual, continued

<i>Year Ended June 30, 2019</i>	Budget	Actual	Variance
Expenditures, continued:			
King Cove Access Project:			
Supplies	\$ 1,734	\$ 1,734	\$ -
Maintenance	99,000	99,000	-
Total King Cove Access Project	100,734	100,734	-
Other:			
Local school contribution	900,000	900,000	-
Student scholarship	35,000	35,000	-
Student travel	20,000	20,000	-
Repairs	3,635	3,635	-
Utilities	24,993	24,993	-
Equipment	37,122	77,482	(40,360)
Legal	112,280	112,280	-
Insurance	166,077	166,077	-
Bank fees	13,611	13,612	(1)
Contribution to Eastern Aleutians Tribes	150,000	150,000	-
Revenue sharing - Nelson Lagoon	15,789	15,789	-
Aleutian Crab	37,837	37,837	-
Donations	20,000	20,000	-
Contractual	-	126,430	(126,430)
Web service	36,073	36,073	-
KSDP contribution	10,000	10,000	-
Miscellaneous expense	92,835	95,048	(2,213)
Total other	1,675,252	1,844,256	(169,004)
Total Expenditures	4,024,937	4,024,934	3
Excess of Revenues Over Expenditures	4,520,926	4,477,072	(43,854)
Other Financing Sources and Uses:			
Transfers in	53,693	-	(53,693)
Transfers out	(2,900,597)	(3,072,979)	(172,382)
Total Other Financing Sources and Uses	(2,846,904)	(3,072,979)	(226,075)
Net Change in Fund Balance	\$ 1,674,022	1,404,093	\$ (269,929)
Fund Balance, beginning		18,310,043	
Fund Balance, ending		\$ 19,714,136	

Aleutians East Borough, Alaska
Capital Improvements Capital Project Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balance

Year Ended June 30, 2019

Revenues

Federal government	\$ 297,333
State of Alaska	214,156
Investment income	2,018
Other revenue	6,829

Total Revenues	520,336
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Expenditures

Current - infrastructure:

Travel	1,227
Contractual	176,575
Supplies	204,119
Repairs	67,588
Other	5,945
Capital outlay	506,786

Total Expenditures	962,240
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Net Change in Fund Balance	(441,904)
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Fund Balance, beginning	898,309
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Fund Balance, ending	\$ 456,405
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Aleutians East Borough, Alaska

Trust Permanent Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2019

Revenues - investment income	\$ 2,776,373
Expenditures - current - general government - management fee	40,941
Net Change in Fund Balance	2,735,432
Fund Balance, beginning	44,300,067
Fund Balance, ending	\$ 47,035,499

Aleutians East Borough, Alaska

Debt Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2019

Expenditures

Debt service:

Principal	\$ 1,450,000
Interest	1,022,203

Total Expenditures	2,472,203
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Other Financing Sources - transfers in	2,472,203
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Net Change in Fund Balance	-
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Fund Balance, beginning	-
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Fund Balance, ending	\$ -
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Aleutians East Borough, Alaska
Bond Construction Capital Project Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2019

Revenues

Investment income	\$ 151,402
Other	66,909

Total Revenues	218,311
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Expenditures

Current - infrastructure - contractual	40,941
Capital outlay	7,363

Total Expenditures	48,304
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Net Change in Fund Balance	170,007
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Fund Balance, beginning	27,207
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Fund Balance, ending	\$ 197,214
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Aleutians East Borough, Alaska
Maintenance Reserve Capital Project Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2019

Expenditures

Current - infrastructure:	
Salaries and benefits	\$ 4,618
Maintenance	291,368
Other	35,417
Capital outlay	143,630

Total Expenditures	475,033
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Other financing sources - transfers in	475,033
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Net Change in Fund Balances	-
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Fund Balance, beginning	-
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Fund Balance, ending	\$ -
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Aleutians East Borough
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Passed-Through Entity Identifying Number	Total Grant Award	Provided to Subrecipients	Total Federal Expend- itures
U.S. Department of the Interior					
Payments in Lieu of Taxes	15.226		\$ 628,227	\$ -	\$ 628,227
U.S. Department of Commerce					
Passed through the National Fish and Wildlife Foundation - Unallied Science Program	11.472	0303.18.062040	418,017	-	297,333
Total Expenditures of Federal Awards				\$ -	\$ 925,560

1. Basis of Presentation

The schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Aleutians East Borough, Alaska (the Borough). The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Borough, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Borough.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Borough has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Aleutians East Borough, Alaska
Schedule of State Financial Assistance
Year Ended June 30, 2019

Grant Title	Grant Number	Total Grant Award	Passed Through to Subrecipients	Total State Expenditures
Department of Commerce, Community and Economic Development				
* Shared Fisheries Tax Program	FY19	\$ 175,985	\$ -	\$ 175,985
* Community Assistance Program	FY19	316,366	-	316,366
* King Cove Access Project	14-RR-067	1,958,992	-	83,639
* Cold Bay Airport	13-DC-501	2,000,000	-	130,517
Total Department of Commerce, Community and Economic Development			-	706,507
Department of Revenue				
* Fisheries Business Taxes	FY19	1,887,896	-	1,887,896
Department of Education and Early Development				
* Debt Retirement Program	FY19	654,763	-	654,763
Department of Administration				
PERS on-behalf	FY19	55,098	-	55,098
Total State Financial Assistance			\$ -	\$ 3,304,264

* Denotes major program

The accompanying notes are an integral part of this schedule.

Aleutians East Borough, Alaska

Notes to Schedule of State Financial Assistance Year Ended June 30, 2019

1. Basis of Presentation

The accompanying schedule of state financial assistance (the "Schedule") includes the state grant activity of Aleutians East Borough, Alaska (the Borough), excluding its component unit, Aleutians East Borough School District, under programs of the State of Alaska for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of the Borough, it is not intended to and does not present the financial position, changes in net position or cash flows of the Borough.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are presented using the modified accrual basis of accounting.

3. PERS On-Behalf

The Borough has recorded \$55,098 in PERS On-Behalf payments in the schedule of state financial assistance. This represents the PERS relief payment appropriated and transferred into the plan during fiscal year 2019. In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized in the year appropriated and transferred to the plan. However, in the full accrual financial statements, GASB 68 provisions prescribe that on-behalf pension contributions in a special funding situation may only be recognized during the measurement period in which the plan recognizes the contributions, effectively creating a one-year timing difference between the cash contribution and revenue and expense recognition by the Borough.

As a result of these perspective and timing differences, amounts reported in the financial statements do not agree to the amounts reported on the schedule of state financial assistance.

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Single Audit Section



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3601 C Street, Suite 600
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aleutians East Borough, Alaska (the Borough), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements, and have issued our report thereon dated April 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, and 2019-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Borough's Response to Findings

The Borough's response to the findings identified in our audit is described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
April 30, 2020



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3601 C Street, Suite 600
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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

Report on Compliance for Each Major Federal Program

We have audited Aleutians East Borough's (the Borough) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Borough's major federal programs for the year ended June 30, 2019. The Borough's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Borough's basic financial statements include the operations of Aleutians East Borough School District which received \$3,049,844 in federal awards which is not included in the Borough's schedule of expenditures of federal awards during the year ended June 30, 2019. Our audit, described below, did not include the operations of Aleutians East Borough School District because it was subjected to a separate audit in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Borough's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Borough's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-004 and 2019-005 that we consider to be significant deficiencies.

The Borough's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
April 30, 2020



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Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

Report on Compliance for Each Major State Program

We have audited Aleutians East Borough's (the Borough) compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the Borough's major state programs for the year ended June 30, 2019. The Borough's major state programs are identified in the accompanying schedule of state financial assistance.

The Borough's basic financial statements include the operations of Aleutians East Borough School District which received \$5,131,648 in state financial assistance which is not included in the Borough's schedule of state financial assistance during the year ended June 30, 2019. Our audit, described below, did not include the operations of Aleutians East Borough School District because it was subjected to a separate audit in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Borough's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Borough's compliance.

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BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Opinion on Each Major State Program

In our opinion, the Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-006 and 2019-007 that we consider to be significant deficiencies.

The Borough's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The Borough's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
April 30, 2020

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited, were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

☐ yes

☒ no

Significant deficiency(ies) identified?

☒ yes

☐

Noncompliance material to financial statements noted?

☐ yes

☒ no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

☐ yes

☒ no

Significant deficiency(ies) identified?

☒ yes

☐ (none reported)

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ yes

☒ no

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

Agency

15.226

Payments in Lieu of Taxes

Department of the Interior

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?

☐ yes

☒ no

State Financial Assistance

Internal control over major state programs:

Material weakness(es) identified?

☐ yes

☒ no

Significant deficiency(ies) identified?

☒ yes

☐ (none reported)

Type of auditor's report issued on compliance for major state programs:

Unmodified

Dollar threshold used to distinguish a state major program:

\$ 75,000

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2019

Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards

<u>Finding 2019-001</u>	Approved Pay Rates - Internal Control over Financial Reporting - Significant Deficiency
--------------------------------	--

<i>Criteria</i>	<i>Government Auditing Standards</i> states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.
<i>Condition</i>	We noted at the start of the fiscal year that the Borough did not require employees to have signed and approved pay rates on file. As such, payroll expenditures were recorded to the general ledger for which the underlying transaction were not supported by documented approved pay rates. The Borough adopted a policy requiring all employees to have signed and approved payrates on file towards the end of fiscal year 2019.
<i>Cause</i>	Internal controls were not in place throughout the entire fiscal year to ensure that all employees have approved pay rates included in the personnel files.
<i>Effect or potential effect</i>	Lack of properly documented pay rates increases the likelihood that payroll expense could be misstated.
<i>Recommendation</i>	We recommend management keep enforcing the updated policy requiring signed and approved pay rates be kept on file for all employees. We recommend management closely review the activity in the general ledger. Information should be reviewed for completeness and accuracy. Year-end balances should be reviewed prior to closing of the books.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2019

Finding 2019-002 **Segregation of Duties - Internal Control over Financial Reporting - Significant Deficiency**

Criteria *Government Auditing Standards* states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.

Condition We noted that while management began taking steps in 2019 to improve segregation of duties between initiation and review/approval of cash disbursements prior to posting, there were still instances in which cash disbursements were processed and recorded to the general ledger without proper segregation of duties between initiation and review/approval prior to posting.

Cause Internal controls were not in place throughout the entire fiscal year to ensure that all transactions were reviewed and approved by an individual who did not initiate the transaction.

Effect or potential effect Lack of proper internal controls related to cash disbursements and segregation of duties increases the risk that inappropriate or inaccurate transactions will be recorded to the general ledger.

Recommendation We understand that management is in the process of updating the employee handbook, creating travel request and travel expense forms. We recommend management complete these steps as soon as possible.

Views of responsible officials Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2019

<u>Finding 2019-003</u>	Journal Entry Review - Internal Control over Financial Reporting - Significant Deficiency
<i>Criteria</i>	<i>Government Auditing Standards</i> states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.
<i>Condition</i>	We noted that the finance director was able to create and post journal entries to the general ledger without separate review and approval.
<i>Cause</i>	Internal controls were not established to ensure that all journal entries are reviewed and approved by an individual who did not prepare the entry and who is knowledgeable of the facts and circumstances related to the entry.
<i>Effect or potential effect</i>	Lack of proper internal controls related to journal entries increases the risk that inappropriate or inaccurate transactions will be recorded to the general ledger.
<i>Recommendation</i>	Management should adopt policies and procedures related to the journal entry review and approval process to ensure that a separate individual review all journal entries prior to posting. If the Borough does not have a separate individual on staff, the Borough should consider hiring a third-party accountant/book keeper to assist management.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2019

Section III - Federal Award Findings and Questioned Costs

<u>Finding 2019-004</u>	Activities Allowed and Unallowed, Allowable Costs - Internal Control over Compliance - Significant Deficiency
<i>Agency</i>	Department of the Interior
<i>CFDA</i>	15.226
<i>Program</i>	Payments in Lieu of Taxes
<i>Award Year</i>	FY 2019
<i>Criteria</i>	Management is responsible to provide reasonable assurance that the costs paid for by federal funds are allowable and in accordance with the types of activities allowed per the compliance supplement.
<i>Condition</i>	We noted at the start of the fiscal year that the Borough did not require employees to have signed and approved pay rates on file. As such, payroll expenditures were recorded to the general ledger for which the underlying transaction were not supported by documented approved pay rates. The Borough adopted a policy requiring all employees to have signed and approved payrates on file towards the end of fiscal year 2019.
<i>Cause</i>	Internal controls were not in place throughout the entire fiscal year to ensure that all employees have approved pay rates included in the personnel files.
<i>Effect or potential effect</i>	Federal funds could be expended for unallowed activities and unallowed costs.
<i>Questioned costs</i>	None.
<i>Context</i>	We noted the Borough did not require all employees to have signed and approved pay rates on file throughout the entire year. However, all costs tested were found to be allowable in accordance with program requirements.
<i>Recommendation</i>	We recommend management keep enforcing the updated policy requiring signed and approved pay rates be kept on file for all employees. We recommend management closely review the activity in the general ledger. Information should be reviewed for completeness and accuracy. Year-end balances should be reviewed prior to closing of the books.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2019

<u>Finding 2019-005</u>	Activities Allowed and Unallowed, Allowable Costs - Internal Control over Compliance - Significant Deficiency
<i>Agency</i>	Department of the Interior
<i>CFDA</i>	15.226
<i>Program</i>	Payments in Lieu of Taxes
<i>Award Year</i>	FY 2019
<i>Criteria</i>	Management is responsible to provide reasonable assurance that the costs paid for by federal funds are allowable and in accordance with the types of activities allowed per the compliance supplement.
<i>Condition</i>	We noted that while management began taking steps in 2019 to improve segregation of duties between initiation and review/approval of cash disbursements prior to posting, there were still instances in which cash disbursements were processed and recorded to the general ledger without proper segregation of duties between initiation and review/approval prior to posting.
<i>Cause</i>	Internal controls were not in place throughout the entire fiscal year to ensure that all transactions were reviewed and approved by an individual who did not initiate the transaction.
<i>Effect or potential effect</i>	Federal funds could be expended for unallowed activities and unallowed costs.
<i>Questioned costs</i>	None.
<i>Context</i>	It was identified during the walkthrough of cash disbursement internal controls that there is not a process in place that requires all cash disbursements to be reviewed and approved by an individual other than the preparer. However, all costs tested were found to be allowable in accordance with program requirements.
<i>Recommendation</i>	We understand that management is in the process of updating the employee handbook and implementing controls to ensure that all cash disbursements are properly reviewed and approved. We recommend management complete these steps as soon as possible.
<i>Views of responsible officials</i>	Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2019

Section IV - State Award Findings and Questioned Costs

Finding 2019-006 **Types of Services Allowed and Unallowed - Internal Control over Compliance - Significant Deficiency**

State Agency Department of Commerce, Community and Economic Development
Grant Name Community Assistance Program

Grant Number FY 19 Award Year: FY19

Criteria Management is responsible to provide reasonable assurance that the costs paid for by state financial assistance are allowable and in accordance with the types of activities allowed per the compliance supplement.

Condition We noted that while management began taking steps in 2019 to improve segregation of duties between initiation and review/approval of cash disbursements prior to posting, there were still instances in which cash disbursements were processed and recorded to the general ledger without proper segregation of duties between initiation and review/approval prior to posting.

Questioned costs None.

Context It was identified during the walkthrough of cash disbursement internal controls that there is not a process in place that requires all cash disbursements to be reviewed and approved by an individual other than the preparer. However, all costs tested were found to be allowable in accordance with program requirements.

Effect or potential effect State funds could be expended for unallowed activities.

Cause Internal controls were not in place throughout the entire fiscal year to ensure that all transactions were reviewed and approved by an individual who did not initiate the transaction.

Repeat finding Yes.

Recommendation We understand that management is in the process of updating the employee handbook, creating travel request and travel expense forms. We recommend management complete these steps as soon as possible.

Views of responsible officials Management concurs with the finding and will adhere to the corrective action plan included in this report.

Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2019

Finding 2019-007 **Types of Services Allowed and Unallowed - Internal Control over Compliance - Significant Deficiency**

State Agency Department of Commerce, Community and Economic Development
Grant Name Community Assistance Program
Grant Number FY 19 Award Year: FY19

Criteria Management is responsible to provide reasonable assurance that the costs paid for by state financial assistance are allowable and in accordance with the types of activities allowed per the compliance supplement.

Condition We noted at the start of the fiscal year that the Borough did not require employees to have signed and approved pay rates on file. As such, payroll expenditures were recorded to the general ledger for which the underlying transaction were not supported by documented approved pay rates. The Borough adopted a policy requiring all employees to have signed and approved payrates on file towards the end of fiscal year 2019.

Questioned costs None.

Context We noted the Borough does not require employees to have signed and approved pay rates on file. However, all costs tested were found to be allowable in accordance with program requirements.

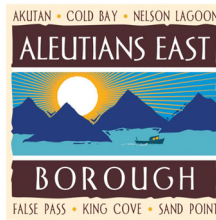
Effect or potential effect State funds could be expended for unallowed activities.

Cause Internal controls were not in place throughout the entire fiscal year to ensure that all employees have approved pay rates included in the personnel files.

Repeat finding Yes.

Recommendation We recommend management keep enforcing the updated policy requiring signed and approved pay rates be kept on file for all employees. We recommend management closely review the activity in the general ledger. Information should be reviewed for completeness and accuracy. Year-end balances should be reviewed prior to closing of the books.

Views of responsible officials Management concurs with the finding and will adhere to the corrective action plan included in this report.



Aleutians East Borough, Alaska

Summary Schedule of Prior Audit Findings *Year Ended June 30, 2019*

Finding 2018-001 **General Ledger Reconciliation and External Financial Reporting - Internal Control over Financial Reporting - Material Weakness**

Finding Internal controls were not established to ensure that all general ledger accounts were properly reconciled and adjusted at year-end for GAAP based reporting.

Status The Aleutians East Borough implement policies and procedures to ensure that the books and records were updated and closed in a timely manner. We consider this finding resolved.

Finding 2018-002 **Approved Pay Rates - Internal Control over Financial Reporting - Significant Deficiency**

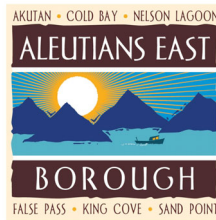
Finding Internal controls were not established to ensure that all employees have approved pay rates included in the personnel files.

Status The Aleutians East Borough instituted a policy requiring all employees to have a personnel action form stating the current rate of pay included in their personnel files. This form is required to be updated annually or whenever there is a change in the employee's rate of pay. The Borough requires the employee and the employee's immediate supervisor to sign the personnel action form annually as well as any time the form is updated. This policy was enacted in March 2019 and has been in effect since then. We consider this finding partially resolved. See finding 2019-001 in the current year.

Finding 2018-003 **Segregation of Duties - Internal Control over Financial Reporting - Significant Deficiency**

Finding Internal controls were not established to ensure that all transactions must be reviewed and approved by an individual who did not initiate the transaction.

Status Aleutians East Borough Administration is in the process of updating the employee handbook, which will include a section regarding the reimbursement policy. Administration has also drafted a travel request form and a travel expense form that will be provided to the Borough employees for use. In the interim, Administration has requested that all Borough employees send an e-mail to the Administrator or Mayor regarding their travel reimbursement or per diem prior to having it sent to the Finance Office for payment. We consider this finding partially resolved. See finding 2019-002 in the current year.



Aleutians East Borough, Alaska

Summary Schedule of Prior Audit Findings , continued *Year Ended June 30, 2019*

Finding 2018-004 **Journal Entry Review - Internal Control over Financial Reporting - Significant Deficiency**

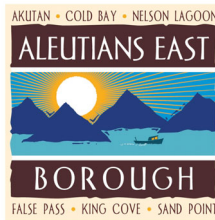
Finding Internal controls were not established to ensure that all journal entries are reviewed and approved by an individual who did not prepare the entry and who is knowledgeable of the facts and circumstances related to the entry.

Status Borough Administration has drafted a Request for Proposal for a Full-Charge Bookkeeper to review entries on a monthly basis. This RFP should be issued no later than May 2020. We consider this finding unresolved. See finding 2019-003 in the current year.

Finding 2018-005 **Types of Services Allowed and Unallowed - Internal Control over Compliance - Significant Deficiency**

Finding Internal controls were not established to ensure that employees have approved pay rates in the personnel files.

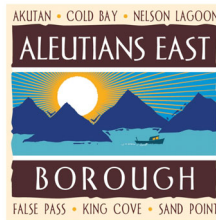
Status The Aleutians East Borough instituted a policy requiring all employees to have a personnel action form stating the current rate of pay included in their personnel files. This form is required to be updated annually or whenever there is a change in the employee's rate of pay. The Borough requires the employee and the employee's immediate supervisor to sign the personnel action form annually as well as any time the form is updated. This policy was enacted in March 2019 and has been in effect since then. We consider this finding partially resolved. See finding 2019-007 in the current year.



Aleutians East Borough, Alaska

Summary Schedule of Prior Audit Findings , continued *Year Ended June 30, 2019*

<u>Finding 2018-006</u>	Types of Services Allowed and Unallowed - Internal Control over Compliance - Significant Deficiency
<i>Finding</i>	Internal controls were not established to ensure that all transactions must be reviewed and approved by an individual who did not initiate the transaction.
<i>Status</i>	Aleutians East Borough Administration is in the process of updating the employee handbook, which will include a section regarding the reimbursement policy. Administration has also drafted a travel request form and a travel expense form that will be provided to the Borough employees for use. In the interim, Administration has requested that all Borough employees send an e-mail to the Administrator or Mayor regarding their travel reimbursement or per diem prior to having it sent to the Finance Office for payment. We consider this finding partially resolved. See finding 2019-006 in the current year.
<u>Finding 2018-007</u>	Deadline for State Single Audit - Internal Control over Compliance - Material Weakness
<i>Finding</i>	Internal controls were not established to ensure that all general ledger accounts were properly reconciled and adjusted at year-end for GAAP based reporting.
<i>Status</i>	The Aleutians East Borough implement policies and procedures to ensure that the books and records were updated and closed in a timely manner. We consider this finding resolved.



Aleutians East Borough, Alaska

Corrective Action Plan Year Ended June 30, 2019

Name of Contact Person Anne Bailey
Borough Administrator
abailey@aeboro.org
907-274-7580

Financial Statement Findings Required to be Reported in Accordance with <i>Government Auditing Standards</i>

Finding 2019-001 Approved Pay Rates – Internal Control over Financial Reporting – Significant Deficiency

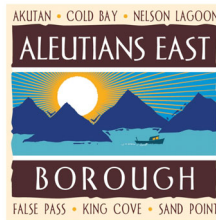
Corrective Action Plan The Aleutians East Borough instituted a policy requiring all employees to have a personnel action form stating the current rate of pay included in their personnel files. This form is required to be updated annually or whenever there is a change in the employee's rate of pay. The Borough requires the employee and the employee's immediate supervisor to sign the personnel action form annually as well as any time the form is updated. This policy was enacted in March 2019 and has been in effect since then. Administration will review the activity in the general ledger to ensure completeness and accuracy. The year-end balances will be reviewed prior to closing the books.

Expected Completion Date June 30, 2020

Finding 2019-002 Segregation of Duties – Internal Control over Financial Reporting – Significant Deficiency

Corrective Action Plan The Aleutians East Borough is in the process of updating the employee handbook, which includes a section regarding business travel requests and reimbursements. Resolution 20-59 will be going before the Assembly at the May 14, 2020 Assembly for review and consideration. Resolution 20-59 amends Section 11.01 of the Aleutians East Borough Handbook, which outlines the business travel requirements for the Borough. These changes will require that all business travel be approved in advance in writing by the Borough Mayor, Borough Administrator, or designee via a Travel Request Form. It also will require all employees to complete and submit a Travel Expense Form to the Borough Administrator upon travel completion.

Expected Completion Date June 30, 2020



Aleutians East Borough, Alaska

Corrective Action Plan Year Ended June 30, 2019

Finding 2019-003 Journal Entry Review – Internal Control over Financial Reporting – Significant Deficiency

Corrective Action Plan On April 8, 2020, the Aleutians East Borough issued a Request for Proposal for a Full-Charge Bookkeeper. The proposals are due on May 4, 2020. The Borough plans on having this contract begin on June 1, 2020.

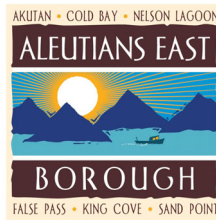
Expected Completion Date June 30, 2020

Federal Award Findings

Finding 2019-004 Activities Allowed and Unallowed, Allowable Costs – Internal Control over Compliance – Significant Deficiency

Corrective Action Plan The Aleutians East Borough instituted a policy requiring all employees to have a personnel action form stating the current rate of pay included in their personnel files. This form is required to be updated annually or whenever there is a change in the employee's rate of pay. The Borough requires the employee and the employee's immediate supervisor to sign the personnel action form annually as well as any time the form is updated. This policy was enacted in March 2019 and has been in effect since then. Administration will review the activity in the general ledger to ensure completeness and accuracy. The year-end balances will be reviewed prior to closing the books.

Expected Completion Date June 30, 2020



Aleutians East Borough, Alaska

Corrective Action Plan

Year Ended June 30, 2019

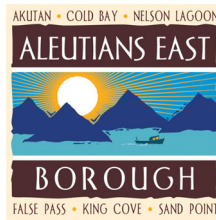
Finding 2019-005 Activities Allowed and Unallowed, Allowable Costs – Internal Control over Compliance – Significant Deficiency

Corrective Action Plan

The Aleutians East Borough is in the process of updating the employee handbook, which includes a section regarding business travel requests and reimbursements. Resolution 20-59 will be going before the Assembly at the May 14, 2020 Assembly for review and consideration. Resolution 20-59 amends Section 11.01 of the Aleutians East Borough Handbook, which outlines the business travel requirements for the Borough. These changes will require that all business travel be approved in advance in writing by the Borough Mayor, Borough Administrator, or designee via a Travel Request Form. It also will require all employees to complete and submit a Travel Expense Form to the Borough Administrator upon travel completion.

Expected

Completion Date June 30, 2020



Aleutians East Borough, Alaska

Corrective Action Plan Year Ended June 30, 2019

State Award Findings

Finding 2019-006 Types of Services Allowed and Unallowed – Internal Control over Compliance – Significant Deficiency

Corrective Action Plan The Aleutians East Borough is in the process of updating the employee handbook, which includes a section regarding business travel requests and reimbursements. Resolution 20-59 will be going before the Assembly at the May 14, 2020 Assembly for review and consideration. Resolution 20-59 amends Section 11.01 of the Aleutians East Borough Handbook, which outlines the business travel requirements for the Borough. These changes will require that all business travel be approved in advance in writing by the Borough Mayor, Borough Administrator, or designee via a Travel Request Form. It also will require all employees to complete and submit a Travel Expense Form to the Borough Administrator upon travel completion.

Expected Completion Date June 30, 2020

Finding 2019-007 Types of Services Allowed and Unallowed – Internal Control over Compliance – Significant Deficiency

Corrective Action Plan The Aleutians East Borough instituted a policy requiring all employees to have a personnel action form stating the current rate of pay included in their personnel files. This form is required to be updated annually or whenever there is a change in the employee's rate of pay. The Borough requires the employee and the employee's immediate supervisor to sign the personnel action form annually as well as any time the form is updated. This policy was enacted in March 2019 and has been in effect since then. Administration will review the activity in the general ledger to ensure completeness and accuracy. The year-end balances will be reviewed prior to closing the books.

Expected Completion Date June 30, 2020